

## SUMMARY ANALYSIS OF AMENDED BILL

Author: Morrissey Analyst: Jeff Garnier Bill Number: AB 2131

Related Bills: AB 2107, AB 1991 Telephone: 845-5322 Amended Date: 3-31-98

Attorney: Doug Bramhall

Sponsor:

**SUBJECT:** Taxpayer Health Insurance Deduction - 100% of Amount Paid

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 18, 1998.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 18, 1998 STILL APPLIES.

☒ OTHER - See comments below.

### SUMMARY OF BILL

This bill would allow all individual taxpayers not covered by a health insurance plan to deduct from gross income 100% of the cost of health insurance, up to the amount of self-employed earned income.

### SUMMARY OF AMENDMENT

The amendment extended the 100% deduction from employees to all individual taxpayers. Additionally, the amendment removed a redundant provision requiring that the taxpayer could not be covered by employer provided health insurance in order to be eligible for the deduction.

### EFFECTIVE DATE

As a tax levy, this bill would be effective upon enactment, but specifically becomes operative for taxable years beginning on or after January 1, 1998.

### SPECIFIC FINDINGS

Except for Policy and Implementation Considerations and Tax Revenue Estimate, the department's analysis dated February 18, 1998, still applies.

DEPARTMENTS THAT MAY BE AFFECTED:

\_\_\_ STATE MANDATE

\_\_\_ GOVERNOR'S APPOINTMENT

Board Position:

☐ S ☐ O  
☐ SA ☐ OUA  
☐ N ☐ NP  
☐ NA ☐ NAR  
☒ X PENDING

Agency Secretary Position:

☐ S ☐ O  
☐ SA ☐ OUA  
☐ N ☐ NP  
☐ NA ☐ NAR  
DEFER TO \_\_\_\_\_

**GOVERNOR'S OFFICE USE**

Position Approved \_\_\_\_\_  
Position Disapproved \_\_\_\_\_  
Position Noted \_\_\_\_\_

Department/Legislative Director Date  
**Johnnie Lou Rosas** **4/7/98**

Agency Secretary Date

By: Date:

**This bill** would permit all individual taxpayers to deduct from gross income 100% of the cost of health insurance. The deduction is limited to the amount of the taxpayer's self-employed earned income. Therefore, generally, employees would not be allowed this deduction.

Current **federal and state law** does not allow a deduction for health insurance costs if the taxpayer or the taxpayer's spouse is eligible to participate in a employer sponsored health plan. **This bill** does not modify this existing law provision.

#### Policy Considerations

Employees who derive all of their income from wages and have no earnings from self-employment would not be allowed any deduction. This bill only modifies who may take the deduction, but does not make corresponding modifications necessary to implement its provisions. This bill does not modify the self-employed deduction provision that limits the deduction to the "net earnings from self-employment."

#### FISCAL IMPACT

##### Departmental Costs

This bill would not significantly impact the department's costs.

##### Tax Revenue Estimate

Revenue losses from this provision are estimated to be as shown in the following table.

Fiscal Year Cash Flow Impact Effective 1/1/98 Enactment Assumed After June 30, 1998 \$ Millions		
1998-9	1999-0	2000-01
(\$62)	(\$58)	(\$66)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

##### Tax Revenue Discussion

The revenue impact of this proposal is limited to taxpayers who meet the following conditions: (1) must have some self-employed income (self-employed individuals), and (2) must pay 100% of their health insurance premiums.

This estimate was developed in the following steps. First, the number of California resident taxpayers who currently claim the self-employed insurance deduction was calculated from returns filed for 1995 (425,000). Second, the current deduction amount of 25% was calculated to be \$839 on average for returns filed in 1995, making the average annual health insurance premium \$3,356 (\$839 x 4). Third, the estimated number of qualified taxpayers for 1995 was grown at 5% per year to yield 492,000

qualified taxpayers for 1998. Fourth, the insurance premium was grown at 7% per year to yield an average \$4,111 insurance premium for 1998. Sixth, based on the Departmental Tax Model, it was projected that approximately 93% of the qualified taxpayers have Schedule-C income greater than four times the current medical deduction and the remaining 7% have income less than four times. Therefore, it was assumed that 93% of qualified taxpayers would be able to deduct 100% of their insurance premium, and the remaining 7% would be able to deduct 50%. Seventh, the total deduction at 25% was calculated to be \$506 million for 1998, and the amount deducted for health insurance premiums on Schedule-A was calculated to be \$388 million, generating a total deduction amount under current law of \$894 million. At an average marginal tax rate of 4.5% (computed by the microsimulation tax model for self-employed individuals), the current law revenue loss for 1998 is \$40 million. Sixth, the total deduction under the proposal was calculated to be \$1,973 million which, at a 4.5% marginal tax rate, results in a \$89 million tax loss for 1998. These steps resulted in a 1998 estimate of an additional \$49 million tax loss. The 1998-9 fiscal year estimate consists of the 1998 tax loss (\$49 million) and 25% of 1999 reflecting reduced estimated tax payments.

BOARD POSITION

Pending.